

Message Text

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ORIGIN L-03

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FM SECSTATE WASHDC
TO AMEMBASSY PANAMA

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E.O. 11652: N/A

TAGS: EFIN, PN

SUBJECT: NECESSITY OF MODIFYING ARRANGEMENTS FOR
SECURITY OF OUTSTANDING PANAMANIAN BONDS

1. DEPARTMENT HAS RECEIVED NUMEROUS INQUIRIES FROM
CONGRESSIONAL SOURCES AND BROKERAGE FIRMS REGARDING STEPS
WHICH HAVE BEEN TAKEN TO CONTINUE EXISTING ARRANGEMENTS
BETWEEN GOP AND HOLDERS OR FISCAL AGENTS FOR HOLDERS OF
GOP BONDS PRESENTLY SECURED BY A PLEDGE OF PAYMENTS DUE GOP
UNDER 1955 TREATY.

2. THERE ARE THREE BOND ISSUES INVOLVED.

A) THE FIRST IS A PUBLIC ISSUE OF DOLLARS 10,500,000
AUTHORIZED UNDER LAW NO. 14 OF FEBRUARY 15, 1950 WHICH
ARE DESIGNATED AS THE "REPUBLIC OF PANAMA 3 PER CENT EX-
TERNAL SECURED SERIAL BONDS". THEY ARE SECURED BY A
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PORTION OF THE TREATY PAYMENT AMOUNTING TO DOLLARS 430,000
ANNUALLY WHICH THE GOP HAS IRREVOCABLY INSTRUCTED THE USG
TO PAY DIRECTLY TO THE FIRST NATIONAL CITY BANK OF NEW YORK
AS FISCAL AGENTS FOR THE BONDS PURSUANT TO A FISCAL AGENCY
CONTRACT BETWEEN THE GOP AND THE BANK.

B) SECOND IS A PUBLIC ISSUE OF DOLLARS 16,800,000 DESIG-

NATED AS THE "REPUBLIC OF PANAMA EXTERNAL SECURED BONDS OF 1958" ON WHICH INTEREST IS PAYABLE AT THE RATE OF 4.8 PERCENT PER ANNUM. THESE BONDS ARE SECURED BY A DOLLARS 1,000,000 PORTION OF THE TREATY PAYMENT WHICH THE GOP HAS IRREVOCABLY INSTRUCTED THE USG TO PAY DIRECTLY TO THE FIRST NATIONAL CITY BANK AS FISCAL AGENT FOR THE GOP.

C) THIRD IS AN ISSUE OF DOLLARS 9,024,000 PRINCIPLE AMOUNT BEARING INTEREST AT 4.5 PER CENT WHICH WERE ISSUED TO THE PRUDENTIAL INSURANCE COMPANY PURSUANT TO A PURCHASE AGREEMENT BETWEEN THE REPUBLIC OF PANAMA AND THE PRUDENTIAL COMPANY DATED DECEMBER 19, 1962. THE GOP HAS GIVEN THE USG IRREVOCABLE INSTRUCTIONS TO PAY DOLLARS 500,000 OF THE TREATY PAYMENT DIRECTLY TO THE CHASE MANHATTAN BANK AS FISCAL AGENT FOR THE REPUBLIC OF PANAMA WITH RESPECT TO THIS ISSUE PURSUANT TO A FISCAL AGENCY CONTRACT.

3. PANAMA CANAL TREATY OF 1977 TERMINATES 1955 TREATY, PAYMENTS UNDER WHICH HAD BEEN PLEDGED AS SECURITY ON BONDS. ANNOUNCEMENT OF TERMS OF 1977 TREATY CAUSED DOUBLE AA RATING OF BONDS TO BE SUSPENDED. THE BOND HOLDERS AND FISCAL AGENTS DO NOT QUESTION GOOD FAITH OF GOP, BUT THEY HAVE BEEN ADVERSELY AFFECTED, AND ARE INTERESTED IN PROMPT CLARIFICATION OF THE SITUATION.

4. STEPS ARE IN PROGRESS TO RESOLVE THE ISSUE. AT DEPARTMENT LIMITED OFFICIAL USE

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MENT REQUEST, MARINA MAYO, COUNSELOR, GOP EMBASSY, WASHINGTON HAS HAND CARRIED PROPOSAL FROM PRUDENTIAL TO MIN. BARLETTA ALONG WITH REQUEST FOR PROMPT ATTENTION.

5. CONGRESSIONAL INTEREST IN THIS SITUATION HAS INTENSIFIED RECENTLY. DEPARTMENT HAS RECEIVED A SECOND LETTER FROM SEN. HUDDLESTON STATING IN EFFECT THAT DEPARTMENT'S EARLIER RESPONSE (EXPLAINING BACKGROUND OF THE PROBLEM AND THE EFFORTS DEPARTMENT WOULD MAKE) WAS UNSATISFACTORY. HUDDLESTON IS ACTING IN RESPONSE TO LETTERS FROM THE COMMONWEALTH OF KENTUCKY TEACHER'S RETIREMENT SYSTEM, A LARGE HOLDER OF PANAMANIAN BONDS. HIS LATEST LETTER POSES TWO QUESTIONS: 1) WHY DOES THE NEW TREATY CANCEL (BEGIN UNDERSCORE) ALL PREVIOUS (END UNDERSCORE) AGREEMENTS IF PANAMA INTENDS TO MEET ITS OBLIGATIONS TO RETIRE THE BONDS, AND 2) CAN A LEGALLY BINDING AGREEMENT BE SECURED THAT WILL ASSURE THE ORDERLY RETIREMENT OF THE BONDS. LETTERS HAVE ALSO BEEN RECEIVED FROM SENS. SPARKMAN, STONE, BROOKE AND HELMS.

6. THE DEGREE OF CONGRESSIONAL INTEREST INDICATES THAT THIS WILL BE A VERY TROUBLESOME ISSUE IF IT REMAINS

UNRESOLVED. IN ADDITION, FAIRNESS TO BOND HOLDERS RE-

QUIRES THAT ANY QUESTION AS TO THE FUTURE SECURITY FOR THESE BONDS BE RESOLVED PROMPTLY. ANY FURTHER DELAY COULD BEGIN TO AFFECT PANAMA'S REPUTATION WITH THE FINANCIAL COMMUNITY, AS WELL AS PROVIDE UNNECESSARY AMMUNITION FOR TREATY OPPONENTS. THE DEPARTMENT IS NOT TAKING ANY POSITION AS TO WHAT SPECIFIC ARRANGEMENTS WOULD BE APPROPRIATE TO RESOLVE THE QUESTIONS THAT HAVE ARISEN; THIS IS APPROPRIATELY A MATTER FOR RESOLUTION DIRECTLY BETWEEN THE GOP, THE FISCAL AGENTS, AND THE BONDHOLDERS. IT IS OUR UNDERSTANDING, HOWEVER, THAT ONLY A FEW TECHNICAL AMENDMENTS TO THE FISCAL AGENCY CONTRACTS AND TO THE LIMITED OFFICIAL USE

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INSTRUCTIONS ISSUED BY THE GOP TO THE USG PURSUANT TO THOSE CONTRACTS, ARE INVOLVED. THEY WOULD PROVIDE THAT UPON ENTRY INTO FORCE OF THE NEW PANAMA CANAL TREATY, PORTIONS OF THE AMOUNTS PAYABLE TO THE GOP UNDER ARTICLE XIII (4)(A) AND (B) WOULD BE MADE TO THE FISCAL AGENTS.

7. REQUEST AMBASSADOR RAISE THIS ISSUE WITH BARLETTA, STRESSING THE IMPORTANCE OF RESOLVING THIS MATTER AS QUICKLY AS POSSIBLE. AMBASSADOR MAY WISH TO SUGGEST THAT ONE WAY TO RESOLVE PROBLEM QUICKLY WOULD BE FOR GOP TO DESIGNATE A REPRESENTATIVE TO MEET AT AN EARLY DATE WITH REPRESENTATIVES OF THE FISCAL AGENTS AND BONDHOLDERS IN WASHINGTON OR NEW YORK IN ORDER TO REACH AN ARRANGEMENT SATISFACTORY TO BOTH GOP AND BONDHOLDERS. VANCE

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